

## STATE OF CALIFORNIA

## Budget Change Proposal - Cover Sheet

DF-46 (REV 08/15)

Fiscal Year 2016-17	Business Unit 1111	Department Department of Consumer Affairs	Priority No. 1
Budget Request Name 1111-004-BCP-BR-2016-GB		Program <b>1445 - BUREAU OF REAL ESTATE</b>	Subprogram





Budget Request Description  
Subdivision Workload

## Budget Request Summary

The Bureau of Real Estate (BRE) is requesting position authority for 3.0 Special Investigators to support the BRE's Subdivisions Program. Additionally, the BRE requests a total budget augmentation of \$313,000 for BY and \$289,000 ongoing to fund the positions.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date
For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the Department of Technology, or previously by the Department of Finance. <input type="checkbox"/> FSR <input type="checkbox"/> SPR Project No. Date:		

If proposal affects another department, does other department concur with proposal? ☐ Yes ☐ No  
*Attach comments of affected department, signed and dated by the department director or designee.*

Prepared By 	Date DECEMBER 8, 2015	Reviewed By 	Date 12/8/2015
Department Director 	Date 12/9/2015	Agency Secretary 	Date 12/15/15

## Department of Finance Use Only

Additional Review: ☐ Capital Outlay ☐ ITCU ☐ FSCU ☐ OSAE ☐ CALSTARS ☐ Dept. of Technology

BCP Type: ☐ Policy ☐ Workload Budget per Government Code 13308.05

PPBA	Original signed by Jeff Carosone	Date submitted to the Legislature 1-7-16
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# BCP Fiscal Detail Sheet

BCP Title: Bureau of Real Estate: Licensing Positions Request

DP Name: 1111-044-BCP-DP-2016-GB

## Budget Request Summary

	FY16					
	CY	BY	BY+1	BY+2	BY+3	BY+4
Positions - Permanent	0.0	3.0	3.0	3.0	3.0	3.0
<b>Total Positions</b>	<b>0.0</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>
Salaries and Wages						
Earnings - Permanent	0	185	185	185	185	185
<b>Total Salaries and Wages</b>	<b>\$0</b>	<b>\$185</b>	<b>\$185</b>	<b>\$185</b>	<b>\$185</b>	<b>\$185</b>
Total Staff Benefits	0	86	86	86	86	86
<b>Total Personal Services</b>	<b>\$0</b>	<b>\$271</b>	<b>\$271</b>	<b>\$271</b>	<b>\$271</b>	<b>\$271</b>
Operating Expenses and Equipment						
5301 - General Expense	0	5	5	5	5	5
5302 - Printing	0	2	2	2	2	2
5304 - Communications	0	4	4	4	4	4
5306 - Postage	0	2	2	2	2	2
5320 - Travel: In-State	0	1	1	1	1	1
5322 - Training	0	2	2	2	2	2
5344 - Consolidated Data Centers	0	2	2	2	2	2
5368 - Non-Capital Asset Purchases - Equipment	0	24	0	0	0	0
<b>Total Operating Expenses and Equipment</b>	<b>\$0</b>	<b>\$42</b>	<b>\$18</b>	<b>\$18</b>	<b>\$18</b>	<b>\$18</b>
<b>Total Budget Request</b>	<b>\$0</b>	<b>\$313</b>	<b>\$289</b>	<b>\$289</b>	<b>\$289</b>	<b>\$289</b>

## Fund Summary

Fund Source - State Operations						
0317 - Real Estate Fund	0	313	289	289	289	289
<b>Total State Operations Expenditures</b>	<b>\$0</b>	<b>\$313</b>	<b>\$289</b>	<b>\$289</b>	<b>\$289</b>	<b>\$289</b>
<b>Total All Funds</b>	<b>\$0</b>	<b>\$313</b>	<b>\$289</b>	<b>\$289</b>	<b>\$289</b>	<b>\$289</b>

## Program Summary

Program Funding						
1445 - Bureau of Real Estate	0	313	289	289	289	289
<b>Total All Programs</b>	<b>\$0</b>	<b>\$313</b>	<b>\$289</b>	<b>\$289</b>	<b>\$289</b>	<b>\$289</b>

		Salary Information								
		Min	Mid	Max	CY	BY	BY+1	BY+2	BY+3	BY+4
Positions										
8612	- Special Investigator (Eff. 07-01-2016)				0.0	3.0	3.0	3.0	3.0	3.0
<b>Total Positions</b>					<b>0.0</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>	<b>3.0</b>
Salaries and Wages		CY	BY	BY+1	BY+2	BY+3	BY+4			
8612	- Special Investigator (Eff. 07-01-2016)	0	185	185	185	185	185			
<b>Total Salaries and Wages</b>		<b>\$0</b>	<b>\$185</b>	<b>\$185</b>	<b>\$185</b>	<b>\$185</b>	<b>\$185</b>			
Staff Benefits										
5150350	- Health Insurance	0	33	33	33	33	33			33
5150500	- OASDI	0	14	14	14	14	14			14
5150600	- Retirement - General	0	33	33	33	33	33			33
5150800	- Workers' Compensation	0	6	6	6	6	6			6
<b>Total Staff Benefits</b>		<b>\$0</b>	<b>\$86</b>	<b>\$86</b>	<b>\$86</b>	<b>\$86</b>	<b>\$86</b>			<b>\$86</b>
<b>Total Personal Services</b>		<b>\$0</b>	<b>\$271</b>	<b>\$271</b>	<b>\$271</b>	<b>\$271</b>	<b>\$271</b>			<b>\$271</b>



## Analysis of Problem

### A. Budget Request Summary

The Bureau of Real Estate (BRE) is requesting position authority for 3.0 Special Investigators to support the BRE's Subdivisions Program. Additionally, the BRE requests a total budget augmentation of \$313,000 for BY and \$289,000 ongoing to fund the positions. Delays of Public Reports directly affect the State's macroeconomic recovery by compromising prospective revenue-generating projects and stalling the creation of construction-related jobs within California.

### B. Background/History

The core function and legal mandate of the Bureau of Real Estate is to protect the consumer and the public through the administration of the California Subdivided Lands Act (Business and Professions Code Sections 11000-11287) and the Real Estate Law (Business and Professions Code Sections 10000-10580). Section 10050 (b) of the Business and Professions Code states, "It shall be the principal responsibility of the commissioner to enforce all laws in this part (commencing with Section 10000) and Chapter 1 (commencing with Section 11000) of Part 2 of this division in a manner that achieves the maximum protection for the purchasers of real property and those persons dealing with real estate licensees."

#### Overview of Subdivisions Division

The purchase of real estate is the largest single investment most Californians make during their lifetimes. The California Subdivided Lands Act (Business and Professions Code Sections 11000-11287) established the disclosures and policies a subdivider must comply with when offering new homes or lots for sale. The law is intended to help ensure that a buyer receives what was agreed upon at the time of purchase. These laws apply to most standard subdivisions and various types of common interest developments including condominium projects, certain undivided interest developments, and timeshares offered for sale in California.

Before marketing new subdivisions in California, subdividers must apply for and receive a Public Report from the BRE. Applications for a Public Report include an analysis and verification of such specifics as schools, fire protection, water, sewer systems and costs and assessments for maintaining homeowners' associations and common areas. Current law mandates that prospective buyers must receive a copy of the Public Report upon request by a prospective purchaser and always before a buyer becomes obligated to purchase a lot or unit within a subdivision.

#### Subdivisions Division: Public Reports

The improvement in California's economy has resulted in an increase in development and in new home construction. As a result, applications for a Public Report have increased from developers. The chart below shows a significant increase of applications received beginning FY 2011-12.

Subdivision Applications Received	PY-5	PY-4	PY-3	PY-2	PY-1	PY
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Public Report Applications	1484	1470	1563	2098	2796	3060
Year-Over-Year % Change	17.60%	-1.00%	6.30%	34.20%	33.30%	9.40%
Average Number of Days	46.2	49.5	45.2	46.4	51.8	50.6

The increase in applications has resulted in an additional 4.4 days on average for BRE staff to issue a Public Report. The current forecast is for the continued growth in the number of applications for a Public Report, with an increasing risk that the Bureau would be unable to achieve its statutory mandate of completing its reviews within 60 days. In the aggregate, longer timelines in issuing the mandated



## Analysis of Problem

Public Report to developers increases the cost of development in California, and has the potential to create a drag on the improvement in the California economy.

### Resource History (Dollars in thousands)

Program Budget	PY - 4	PY - 3	PY - 2	PY - 1	PY
Authorized Expenditures	\$40,725	\$44,060	\$47,147	\$46,177	\$47,299
Actual Expenditures	\$40,016	\$43,608	\$46,440	\$46,736	\$41,806
Revenues	\$43,590	\$45,953	\$43,054	\$46,736	\$51,294
Authorized Positions	344.0	371.0	374.0	348.0	334.0
Filled Positions	324.0	340.3	337.0	321.3	305.4
Vacancies	20.0	30.7	37.0	26.7	28.6

### C. State Level Considerations

The mission of the California Bureau of Real Estate is to safeguard and promote the public interests in real estate matters through the protection of buyers of subdivided lands and in real estate matters through the licensure, regulation, education and enforcement of the Real Estate Law, based on statutorily mandated timelines established by the Legislature.

### D. Justification

Without sufficient staffing to address the increase of applications for Public Reports, approval of new commercial projects and housing developments will be stalled. These delays directly affect the State's macroeconomic recovery by compromising prospective revenue-generating projects and stalling the creation of construction-related jobs within California. Consequently, these delays can also stall the growth and stability of California's recovering economy.

#### Subdivisions Division: Statutorily-Mandated Timelines

Home construction is a critical component of California's economy. Delays in processing applications for a Public Report stall projects and increase development costs. In the aggregate, delays in moving new housing stock to market could create a drag on the State's economic recovery. The critical need for BRE to issue Public Reports in a timely manner is the reason that Section 11010.2 of the Business & Professions Code contains statutory timelines on how long the review process of an application for a Public Report can take. These mandated timelines include the following:

- BRE must notify an applicant in writing within 10 days of receipt of an application for a Public Report. Included in this, the Bureau must notify the applicant if the application is complete and ready to be processed (Section 11010(b) of the Business & Professions Code).
- If the application for a Public Report is not ready to be processed because it is missing required documents, BRE must provide notification within ten 10 days of the specifics required to make the notice and application "substantially complete" (Section 11010(b)(1) of the Business & Professions Code).
- BRE has 60 days to complete a review of any application deemed "substantially complete" (Section 11010(b)(2) of the Business & Professions Code).
- Once the review of an application is complete and a Public Report can be issued, BRE has 15 days to issue that report (Section 11010(d) of the Business & Professions Code).

These timelines exist to provide consumer protection through Public Report issuance while also meeting the needs of subdividers/developers through the timely issuance of Public Reports. Of these



## Analysis of Problem

statutorily mandated timelines, the 60 day maximum is the one that has the largest impact to the Bureau from both a process and staffing viewpoint.

### Subdivisions Program Staffing

In previous years, the Bureau staffed the Subdivisions Unit by redirecting resources from other units in response to fluctuations in the volume of applications. During times when application volumes increased, this approach resulted in backlogs and longer cycle times due to the length of time it can take to reassign employees and the lengthy training cycle (it typically takes 9 to 12 months to bring an employee to the level of subject matter expert). This can result in BRE not being able to meet the statutorily mandated productivity timeframes contained in Section 11010.2 of the Business & Professions Code and would result in delays in developers and home builders moving new housing stock to market with the aggregate drag that could have on California's economy.

- In an effort to avoid the risks and limitations of past staffing practices, the BRE is evaluating a model based on meeting average year-over-year volumes and average processing timeframes. Moving forward, the BRE would staff the Subdivisions Unit using the following metrics:
  - Over the last fifteen fiscal years, the BRE received an average of 3,000 Public Report requests per fiscal year.
  - It requires an average of 15.9 hours of staff time to review each application or nearly 2.5 application reviews per full-time equivalent (FTE) employee per week.
  - The assumed average number of work hours per month per employee is 148 work hours per month.
  - Based on the aforementioned workload data, it takes the BRE staff approximately 3,980 hours per month to address 3,000 Public Report requests.
  - 3,980 hours per month divided by 148 average monthly hours of work equals a staffing level of 27 employees doing Public Report application reviews. Please note that 27 is a subset of the Unit's total staff also responsible for reviewing and approving budget documents for proposed developments, employee management, and clerical staff.
  - In FY 2007-08, the BRE had 59 total employees working in the Subdivisions Unit. This included staff assigned to review applications for Public Reports, staff doing project budget reviews, clerical employees, and managers. In response to the steep decline in applications for a Public Report and the large increase in complaints of consumers being victimized by mortgage fraud, the then DRE shifted nineteen 19 employees to the Department's Enforcement unit. This reduced the number of staff assigned to the Public Reports Unit to 40 employees in the Subdivisions Program.
  - Beginning in FY 2012-13, the number of applications for a Public Report began to increase to a level that the smaller staff was beginning to experience longer timelines in issuing a Public Report. In response, the BRE implemented the following staff changes:
    - Redirected 4 existing employees to the Subdivisions Unit. This increased the number of staff assigned to the Subdivisions Review Unit to 43, with approximately 19 of the staff responsible for issuing Public Reports.
    - Upon the retirement of a Managing Deputy Commissioner IV in the Subdivisions Unit, the resulting position was downgraded to a Special Investigator with the job description of reviewing applications for a Public Report to 20.



## Analysis of Problem

- Redirected 4 BRE vacancies to the Subdivisions Unit to be filled as a Special Investigator. This increased the number of staff assigned to the Subdivisions Review Unit to 47 positions with 24 staff focused on issuing Public Reports.

Home construction is a critical component of California's economy. Delays in processing applications and the issuing of a Public Report can stall projects, increase development costs, and delay the movement of new housing stock to the marketplace. In the aggregate, these delays could negatively impact the State's economic recovery. As such, BRE works to issue a Public Report that is complete in its review and expeditious in its delivery.

BRE is forecasting that the increase in applications for Public Reports will continue. Applications from developers and home builders for a Public Report increased 106.2% from FY 2011-12 through FY 2014-15. This increase has led to significantly lengthier processing times to issue a Public Report. The Legislative Analyst's Office (LAO) publication "The 2014-15 Budget: Overview of the Governor's Budget" has projected that "construction activity, responding to recent price and rent increases, will post strong gains in 2014. In 2014, we forecast residential housing permits to increase by 31,000 units to 120,000 permits total. Permits are projected to increase to 136,000 units in 2015 before stabilizing around 160,000 units annually by the end of our forecast period."

While the increase in new housing construction is a positive indication of the growth of California's economy, the BRE is concerned that the associated applications for a Public Report will create backlogs that would surpass the Bureau's staffing resources and result in an inability to meet the statutorily mandated work completion timelines contained in Section 11010.2 of the Business & Professions Code. This would lead to delays in projects, increases in development costs, and a potential slowdown in the aggregate muting the impact that new development and home construction could have on California's continued economic recovery. The workload chart below displays the increase of public report applications received and the impact to BRE staff:

<b>Subdivision Applications Workload</b>	<b>FY 2011-12</b>	<b>FY 2012-13</b>	<b>FY 2013-14</b>	<b>FY 2014-15*</b>	<b>FY 2015-16 (Projected)**</b>
Public Report Applications	1,563	2,098	2,796	3,060	3,537
Total Work Hours	24,852	33,358	44,456	48,654	56,238
# of Full Time Staff reviewing applications	15	19	22	24	28
Staffing Hours Available	26,640	33,744	39,072	40,848	49,728
Staff Needed (Processing Public Reports)	14 total staff needed	19 total staff needed	25 total staff needed	27 total staff needed	32 total staff needed

\* Projection for remainder of FY 2014-15 based on average per month.

\*\*Projection for FY 2015-16 based on a 7% increase in salesperson combination applications, 5% increase in salesperson's licenses issued, and a 4% increase in phone calls.

-Projection for FY 2016-17 based on a 8% increase in salesperson combination applications, 6% increase in salesperson's licenses issued, and a 5% increase in phone calls.

The BRE will monitor workload to determine if the projected workload increases will require the BRE to consider submitting a FY 2017-18 Budget Change Proposal.

## E. Outcomes and Accountability

### Subdivisions

The addition of 3.0 Special Investigator positions would provide BRE with the staffing levels necessary to meet the following objectives:

- Review an application for a Public Report in 15.9 hours or less.
- Reduce the current 51.9 days to 45 days or less it takes to issue a Public Report.

## Analysis of Problem

### Projected Outcomes

Workload Measure	CY	BY	BY+1	BY+2	BY+3
Average Time to Complete an Application Review	15.9	15.9	14.0	14.0	14.0
Average Number of Days it Takes to Issue a Public Report	51.8	45.5	41.0	41.0	40.0

Workload measurement begins with the review of an application and ends when the review is complete. Based on CY figures, it takes 51.8 days to issue a public report. BY +1 and ongoing assumes staffing levels.

## F. Analysis of All Feasible Alternatives

Alternative #1: Approve position authority for 3.0 Special Investigators to support the BRE's Subdivisions Program and approve a total budget augmentation of \$313,000 for BY and \$289,000 ongoing to fund the positions.

Pros: With the upswing in housing sales, applications from builders and developers for the legally required Public Report has increased 106.2% from FY 2011-12 through FY 2014-15. This increase in applications has led to longer timelines and delays in the ability for home builders to begin sales and threatens to result in BRE being unable to meet its legally mandated timelines to issue a Public Report. Increasing the Subdivisions unit by the requested 3.0 Special Investigators would assist in BRE to manage the increase in workload.

Cons: Increasing staff would lead to the need for additional funding for the Bureau as well as an increase in expenditures.

Alternative #2: Redirect existing authorized positions to Subdivisions.

Pros: Redirecting existing authorized positions to Subdivisions would help facilitate the Bureau's capacity to manage the upswing in applications from builders and developers for the legally required Public Report.

Cons: BRE would be re-directing staff from other critical areas such as Enforcement which would result in backlogs in those areas. Additionally, the Bureau would be subject to further scrutiny from the real estate industry, the public, and the Legislature.

Alternative #3: Utilize temporary employees to address the workload issues in Subdivisions.

Pros: Using temporary employees in Subdivisions would help the Bureau address the increase in applications from builders and developers for the legally required Public Report.

Cons: The review of an application for a Public Report is a complicated analytical effort that typically requires a year of experience before an employee is able to work independently. Temporary employees have limited hours and are typically not the best staffing solution for ongoing work.

Alternative #4: Status Quo - Do nothing.



## **Analysis of Problem**

Pros: The BRE would continue to address the increasing workload in Subdivisions at current staffing levels which would avoid increases in Bureau expenditures.

Cons: Addressing continued increases in workload through existing staffing resources could result in the Bureau to falling behind on its statutorily-mandated timelines. The larger impact of this would be on development and home building in California.

### **G. Implementation Plan**

Upon approval and effective July 1, 2016, the Bureau of Real Estate would immediately begin the recruitment for the approved positions. Additionally, the Bureau would implement a training program for new staffing in Subdivisions. The Bureau will continue to monitor the levels of staffing and volume of applications for Public Reports to ensure staff is adhering to timelines set forth for the Bureau.

### **H. Recommendation**

Approve Alternative #1: Approve position authority for 3.0 Special Investigators to support the BRE's Subdivisions Program and approve a total budget augmentation of \$313,000 for BY and \$289,000 ongoing to fund the positions.

**Department of Consumer Affairs  
Bureau of Real Estate**

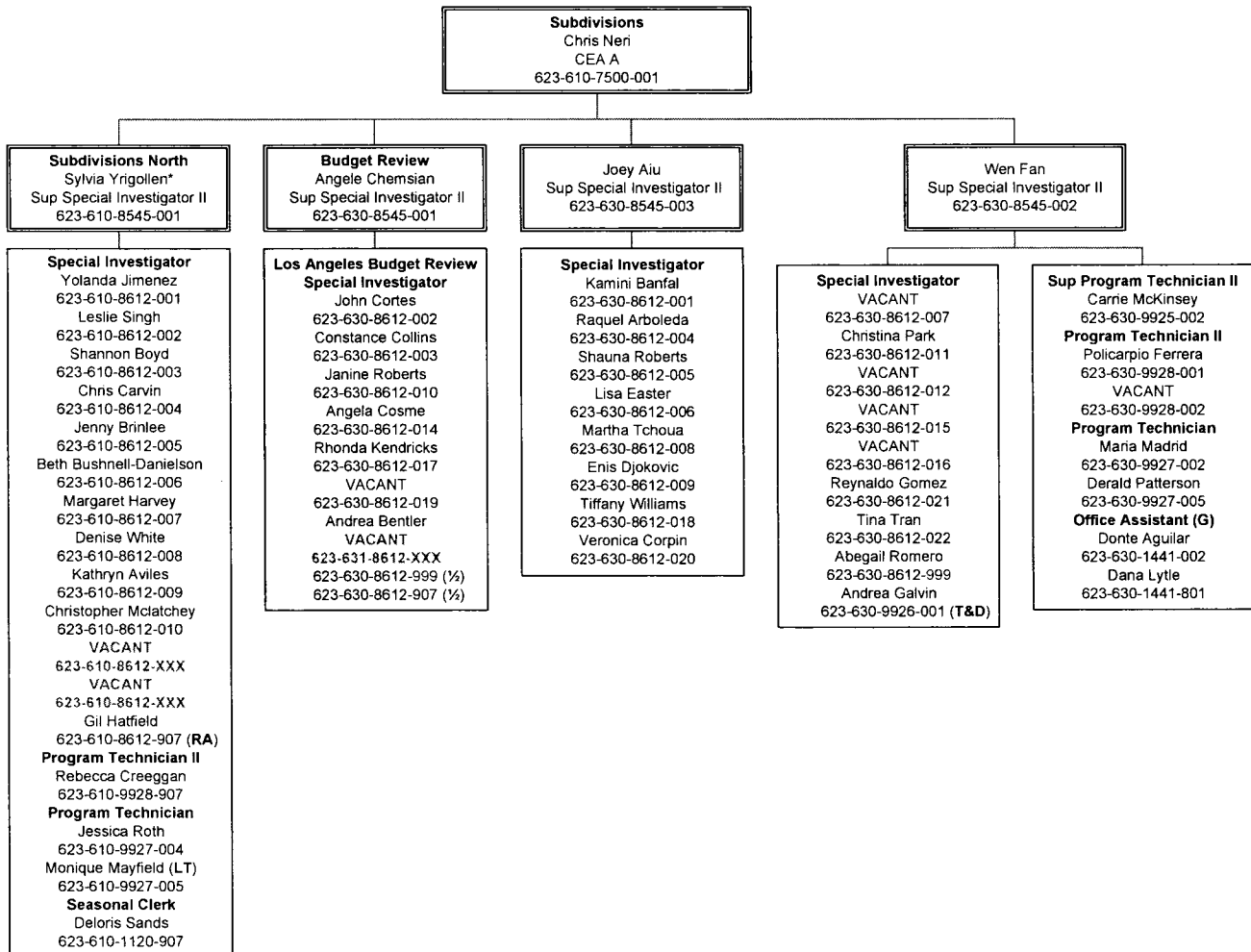
	FY 2015-16			FY 2016-17			FY 2017-18		
	# OF TASK PERFORMED	TIME TO PERFORM (HOURS)	TOTAL HOURS	# OF TASK PERFORMED	TIME TO PERFORM (HOURS)	TOTAL HOURS	# OF TASK PERFORMED	TIME TO PERFORM (HOURS)	TOTAL HOURS
<b>Special Investigator - Subdivisions</b>									
Document Review/Report Writing/Deficiency Letters	1000	5.00	5000	1000	5.00	5000	1000	5.00	5000
File Inquiries (phone/e-mail)	600	0.10	60	600	0.10	60	600	0.10	60
Manager Consultation with Special Investigator	500	0.30	150	500	0.30	150	500	0.30	150
General Inquiries	400	0.30	120	400	0.30	120	400	0.30	120
<b>TOTAL</b>			<b>5,330</b>			<b>5,330</b>			<b>5,330</b>
1.0 PY = 1,776 hours	Total hours/year		5,330.00	Total hours/year		5,330.00	Total hours/year		5,330.00
	Workload Required (PY)		3.00	Workload Required (PY)		3.00	Workload Required (PY)		3.00
	Authorized Staffing		0	Authorized Staffing		0	Authorized Staffing		0
	Total Program Need (PY)		3.00	Total Program Need (PY)		3.00	Total Program Need (PY)		3.00



Department of Consumer Affairs  
Bureau of Real Estate

Subdivisions

Proposed  
FY 2015-16  
610 PY 16 0  
630 PY 33 0  
BL 12-03 (999 blanket): 1.5



\*Certified Bilingual

Wayne Bell, Commissioner

Dannielle Carrillo, C&P Analyst

# 0317 - Real Estate Fund

## Analysis of Fund Condition

Updated

1.4.16

(Dollars in Thousands)

General fund loan outstanding balance as of 8/21/15 : \$10,900

### 2015 Budget Act

	ACTUAL 2014-15	Gov's Budget CY 2015-16	BY 2016-17	BY+1 2017-18
<b>BEGINNING BALANCE</b>	\$ 37,617	\$ 40,932	\$ 40,761	\$ 42,455
Prior Year Adjustment	\$ 639	\$ -	\$ -	\$ -
Adjusted Beginning Balance	\$ 38,256	\$ 40,932	\$ 40,761	\$ 42,455
<b>REVENUES AND TRANSFERS</b>				
Revenues:				
123400 Real Estate Examination Fees	\$ 3,776	\$ 4,019	\$ 4,341	\$ 4,341
123500 Real Estate License Fees	\$ 37,117	\$ 39,606	\$ 42,774	\$ 42,774
123600 Subdivision Filing Fees	\$ 7,270	\$ 7,279	\$ 7,279	\$ 7,279
125700 Other Regulatory Licenses and Permits	\$ 189	\$ 193	\$ 193	\$ 193
141200 Sales of Documents	\$ 14	\$ 15	\$ 15	\$ 15
142500 Miscellaneous Services to the Public	\$ 156	\$ 154	\$ 154	\$ 154
150300 Income from Surplus Money Investments	\$ 85	\$ 83	\$ 83	\$ 83
160100 Attorney General Proceeds of Anti	\$ 7	\$ -	\$ -	\$ -
161000 Escheat of Unclaimed Checks & Warrants	\$ 13	\$ 14	\$ 14	\$ 14
161400 Miscellaneous Revenue	\$ 9	\$ -	\$ -	\$ -
161900 Other Revenue - Cost Recoveries	\$ 829	\$ 850	\$ 850	\$ 850
164300 Penalty Assessments	\$ 569	\$ -	\$ -	\$ -
Totals, Revenues	\$ 50,034	\$ 52,213	\$ 55,703	\$ 55,703
Totals, Revenues and Transfers	\$ 50,034	\$ 52,213	\$ 55,703	\$ 55,703
Totals, Resources	\$ 88,290	\$ 93,145	\$ 96,464	\$ 98,158
<b>EXPENDITURES</b>				
Disbursements:				
1111 Program Expenditures (State Operations)	\$ 47,319	\$ 52,295	\$ 53,632	\$ 54,705
8880 Financial Information System for California (State Oper	\$ 39	\$ 89	\$ 64	\$ 64
Subdivision Workload BCP			\$ 313	\$ 289
Total Disbursements	\$ 47,358	\$ 52,384	\$ 54,009	\$ 55,058
<b>FUND BALANCE</b>				
Reserve for economic uncertainties	\$ 40,932	\$ 40,761	\$ 42,455	\$ 43,100
<b>Months in Reserve</b>	9.4	9.1	9.3	9.3